PRINCE EDWARD ISLAND ENERGY CORPORATION ANNUAL REPORT

1988-1989

90-04172/

BOARD OF DIRECTORS

Mr. Norman F. Stewart, Chairman
Mr. Frank Moran, Vice Chairman
Mr. Robert Foster, Secretary-Treasurer
Mr. Tom Harland
Mrs. Mary Jane Cassidy
Mr. Doug Cameron
Mr. Bruce Lewis

The Honourable Barry Hicken
Minister, Department of Energy & Forestry
P.O. Box 2000
Charlottetown, P.E.I.
C1A 7N8

Dear Mr. Minister:

I have the honour to present to you the attached annual report of the Prince Edward Island Energy Corporation for the year ending March 31, 1989. This report has been prepared and is submitted in accordance with the Energy Corporation Act, Section 10 (1).

Respectfully submitted,

Norman F. Stewart
Chairman of the Board of Directors

1.0 INTRODUCTION

This is the 10th Annual Report of the P.E.I. Energy Corporation and covers the period April 1, 1988 to March 31, 1989. The Energy Corporation was established by the Energy Corporation Act which was proclaimed on December 9, 1978.

The objectives of the Energy Corporation are to develop and promote energy systems on an economic and efficient basis and to coordinate all government programs in the establishment and application of energy systems in the Province.

The Corporation operates within the general framework of provincial energy policy which is the responsibility of the Minister of Energy and Forestry.

2.0 BOARD OF DIRECTORS

The members of the Board of Directors and their terms of office as of March 31, 1989 were as follows:

Norman F. Stewart, Chairman, March 26, 1987-March 26, 1990
Frank Moran, Vice-Chairman, March 26, 1987-March 26, 1990
Robert Foster, Sec'y-Treas., July 10, 1986-July 10, 1989
Mary Jane Cassidy, December 10, 1987-December 10, 1990
Bruce Lewis, December 10, 1987-December 10, 1990
Doug Cameron, October 21, 1986-October 21, 1989

Director, Tom Harland tendered his resignation on October 6, 1988.

3.0 STAFF

R.J. Brandon is the General Manager and Dr. John te Raa is the Operations Manager of the Corporation. During the year, David Godkin, the staff engineer left to join a local consulting company. To replace him and to undertake the maintenance of the Corporation's district heating systems, advertisements were placed in April, 1988 for a Maintenance Technician. John Davey was appointed in May as the Corporation's Maintenance Technician. Marg Hughes continued to be responsible as the Corporation's Administrative Assistant and Joan Robinson carried out the bookkeeping activities for the Corporation.

4.0 SUMMARY OF ACTIVITIES

The major project of the Corporation during this period was the completion of Phase 2 of the University District Heating System. The system, which was put in full operation during the winter of 1988-89, was officially opened by the Premier on February 9, 1989. The completed system now sees district heating being supplied to 27 buildings, served by a trench length of 6.2 km of underground district heating pipe.

The six wood fired boilers located beside Schools and Hospitals in West Prince County were also started up during the winter period of 1988-89. Due to delays in manufacturing and installation during the winter period, full operation of these projects has been delayed.

The pilot district heating system continues to work well and customers, having increasing confidence in the system, have started to remove underground oil tanks and old oil-fired boiler systems. Some of the buildings that used

steam, including the Kirk of St. James, have started to convert their distribution systems to hot water to enable them to increase their use of district heating supply.

Further declines in oil prices continue to place pressure on the financial performance of the Corporation's projects, particularly the Energy from Waste Plant. Studies were completed during the year that identified some opportunities at the Queen Elizabeth Hospital and the Energy from Waste Plant for increasing the use of waste steam. An operational evaluation of the Energy from Waste Plant confirmed that little scope is offered for further operational cost reduction without threatening the integrity of the plant. Improvements have to come in the area of revenue generation, particularly the excess steam that the plant currently produces. Outside contract work continued with the development of a Manual on the installation of district heating systems for the International Energy Agency and a study on telemetry with Bell Northern Research for the same agency. Additional contract work was also carried out for Energy, Mines & Resources Canada on district heating technology.

4.1 ENERGY FROM WASTE PLANT

The Energy from Waste (EFW) Plant consumed 30,000 metric tonnes of municipal waste in 1988-89 and sold 38.2 million kg of steam to the Queen Elizabeth Hospital (QEH). This steam is estimated to have displaced about 3.3 million liters of light fuel oil worth $660,000. Power production from the turbine was increased from the previous year to 540,000 KWh.

The Plant has been in operation since March 1983. In the 6 years, all available refuse totalling over 170,000 tonnes has been processed for the greater Charlottetown community resulting in steam sales of over 200,000,000 Kg. Oil saving during the period has totalled approximately 17,000,000 liters of light fuel oil. During the year a report was commissioned from Waste Conversion Inc. regarding the integration of the Energy from Waste Plant into the overall Provincial waste management program. This project was carried out in conjunction with the Department of the Environment. The Study identified approximately 90,000 metric tonnes of municipal waste being generated in Prince Edward Island on an annual basis and proposed a reduction in Community landfill sites with these sites being replaced by a series of transfer stations feeding the three main landfill sites and the Energy from Waste Plant.

Coles Associates also concluded a review of concepts that would result in increased revenue generation. Thermal storage at the QEH both for domestic hot water and for chilled water were examined. The project showing the most promise was a 250 KW backpressure steam turbine located at the Queen Elizabeth Hospital.

The major maintenance program at the EFW Plant during this period was the continuation of the replacement of the incinerator refractory. Consistent with previous policies, this major maintenance item has been dealt with outside the main operation budget. In 1988-89 major maintenance costs totalled $231,155.

4.2 PILOT DISTRICT HEATING SYSTEM

This district heating system is based on the 1.8 MW wood boiler located at the Prince Edward Home. A district heating network connects this boiler plant

to the Provincial Administration Building and thirteen buildings along Kent Street in Charlottetown. This system continues to operate well and some customers have started to take out or disconnect their oil boilers and remove underground oil tanks, which they are required to do in some cases under new regulations from the Department of the Environment.

The Kirk of St. James is planning to convert their steam distribution system to hot water to take advantage of the district heating system's lower maintenance cost. The operational statistics of the system to date for the first three years are shown in Table 1.

TABLE 1
PILOT DISTRICT HEATING PROJECT
OPERATING STATISTICS

	Oct. 86-Mar. 87	Apr. 87-Mar. 88	Apr. 88-Mar. 89
Total Boiler Output (MW.h)	10,068	13,694	16,836
Wood Fuel Used (tonnes)	2,542	4,702	4,263
Oil Fuel Used (liters)	592,580	824,216	1,047,409
The heat was distributed as follows:			
Prince Edward Home and Provincial Administration Buildings	72%	67.3%	72.9%
Pilot District Heating Buildings	25%	28.7%	24.1%
Pipe Losses	3%	4.0%	3.0%

During the year some problems were experienced with the wood fired boiler at the Prince Edward Home. Refractory repairs were carried out in May and the Boiler was shut down from July through to September to make major repairs to the anchors of the hydraulic rams that are used to move the wood silo scrapes. It appeared that the original design of these anchors was not adequate. This repair was the principal reason that wood fuel use was lower than in 1987-88. A load duration curve for the Prince Edward Home system for January 1, 1988 to December 31, 1988 is shown in Figure 1. Even with the relatively long shutdown of the wood boiler in the summer for repairs, the total amount of energy supplied by the wood fired boiler was 60% of the total system demand.

4.3 UNIVERSITY DISTRICT HEATING SYSTEM

The startup during this year of Phase 2 of the University district heating system marked the culmination of this large and important project. A total of 27 buildings are now heated from the wood and oil boiler complex located on the University Campus. A total of 12.33 kilometers of insulated district heating line connects the individual buildings to the boiler plant using 6.17 kilometers of trench. The peak heating load of the system is 13.7 MW and the total cost of the project was $4.6 million of which $1.9 million was contributed by Energy, Mines & Resources Canada. The heat exchangers in this project were all manufactured in Prince Edward Island under license from the Swedish manufacturer, ELGE.

The first phase of the project which saw the connection of the Charlottetown Mall, Holland College Royalty Centre, Charlottetown Rural High School and

Mount St. Mary's had taken place the previous year. In March, district heating pipe was stockpiled at various locations along Belvedere Avenue awaiting the start of the construction season. Contracts were let with Blair LaPierre and D.B.&J. Inc. for the installation of the heat exchanger substations in the buildings along Belvedere Avenue during April and May. In late April the University pipe line system in the utility tunnels was completed and all the buildings in the University Campus were put on hot water district heating.

Due to an unseasonally wet construction year, the completion of the Belvedere part of the University project was delayed. In October, 50% of the buildings along Belvedere were put on line and by December 31st all buildings were on the system with the exception of the Mayflower Apartments and the Garden Home.

During the year, a total of 10,555 tonnes of wood fuel was burned together with 2,524,297 liters of oil. The average cost of generated heat was 15.95 $/MWh. District heat supplied outside the University campus accounted for 33% of the boiler plant production (15,231 MWh). Sales were 13,193 MWh for a value of $338,350 or 25.65 $/MWh. Thermal losses at 13% are high as percentage of sales due to system startup.

Other associated construction projects were the connection of the second boiler room at the Charlottetown Mall to the system using an over-roof line that replaced the original distribution system at the Towers Complex. In addition, Mount St. Mary's connected, at their own cost, an apartment home to the Northeast of the Convent. The Convent used buried district heating line, sold at cost to them by the Corporation. As explained in previous annual reports, the Corporation's investment in district heating pipe and the heat exchangers in the University's buildings will be paid for over five years by savings resulting from the replacement of the aging steam distribution system by a modern hot water distribution system. Initial projections show that the annual savings are above the feasibility study projections of $60,000 per year.

FIGURE 1

P.E. HOME DH SYSTEM
LOAD DURATION CURVE
1988

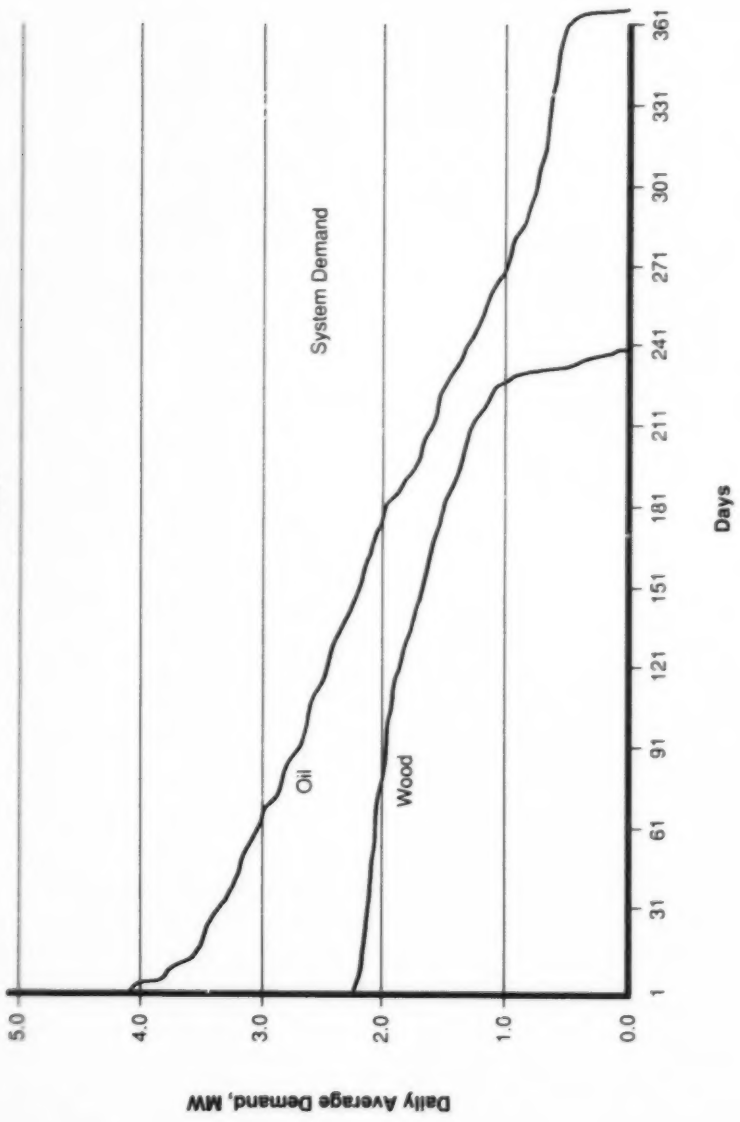
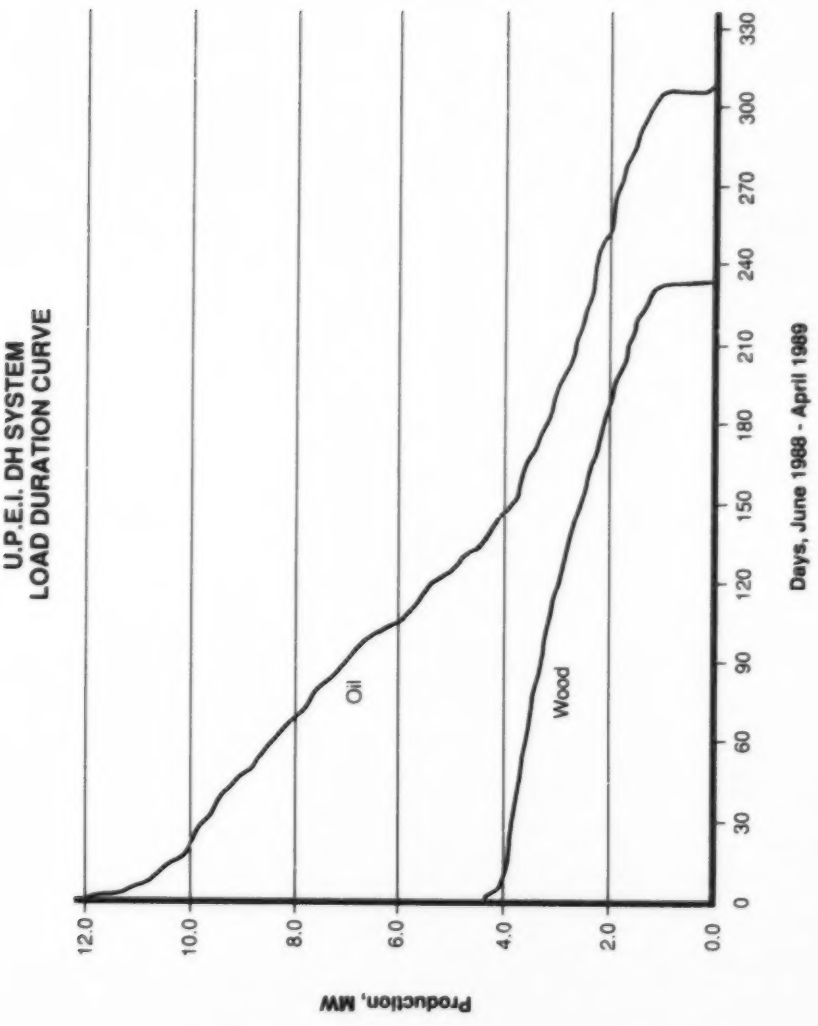


FIGURE 2


U.P.E.I. DH SYSTEM
LOAD DURATION CURVE
Production, MW
12.0
10.0
8.0
6.0
4.0
2.0
0.0
Oil
Wood
0
30
60
90
120
150
180
210
240
270
300
330
Days, June 1988 - April 1989

On February 9, 1989, the system was officially opened by the Premier, the Hon. Joe Ghiz. The President of the University, Dr. William Eliot was in attendance as was Mayor Jack Ready and the Minister responsible for the Energy Corporation, the Hon. Allison Ellis. It was noted during the opening that this project is one of the largest, modern municipal district heating systems in Canada. The use of wood fuel in replacing light oil consumption results in a reduction of CO_2 emissions to the atmosphere which currently is of concern as a major contribution to changes in the atmosphere. A photograph of the U.P.E.I. Boiler Plant is shown in Figure 3.

4.4 WEST PRINCE PROJECT

This project consists of the installation of six wood fired boilers in Prince County. Two of the installations supply Hospitals and the rest are located beside large Schools. The boiler plants are identical and were supplied by a single Company, Sylva Energy Systems. The construction of the wood fired plants was sub-contracted to Georgetown Shipyard. Wood fuel for the installations was a mixture of sawmill chips and sawdust from the new Arsenault's Sawmill at St. Chrysostome, with delivery being organized by La Cooperative Forestiere Ltée. Initial construction of the underground silos and erection of the buildings took place in the summer of 1987. In 1988 the Agreement between the Corporation and the Schools was that the Corporation would operate the units and then turn the equipment over to the School Units and Hospitals once the technology was fully proved. Because of the delay in the installation, these agreements were extended for a further full heating season. The boiler at Westisle was started up in May as was the installation at Three Oaks. Boilers at Hernewood and Callaghan Schools were not started up until the beginning of the 1988-89 heating season. The plant at the Western Hospital operated quite well during the summer of 1988 and experience from this project was used in setting up the balance of the remaining units. Photographs of the plants at Westisle and the Western Hospital are shown in Figures 4 & 5.

In October, however, an inspection problem was discovered with the boilers and the Department of Labour asked for some assurances from the Supplier of the boilers, the Matheson Company of Nova Scotia. This delayed the startup of the equipment until the beginning of November. However, extended guarantees were obtained from the Company and the inspection issue was resolved. Problems were also experienced with the fuel feed system so that the percentage of operation obtained over the winter period was not as high as expected. However, some operating experience was obtained and modifications will be made to the plants for the 1989/90 heating period.

4.5 OTHER PROJECTS

4.5.1 ENERTECH WINDMILL

The Corporation owns a 40KW Windmill that was erected in Bunbury and supplied power to the Bunbury-Southport Pollution Control Commission. Due to a windstorm the unit was damaged in 1987. The equipment has been repaired under an Insurance Policy held on the equipment and will be erected at the Atlantic Wind Test Site to obtain operational experience. By operating the unit for an extended period it is hoped to obtain useful reliability information. It is anticipated that this unit will be brought back into operation at the Atlantic

Wind Test Site in late 1989.

4.5.2 SOURIS HOSPITAL WOOD BOILER

A similar boiler plant to the equipment installed in West Prince was installed at the new Hospital in Souris. The equipment was installed in February of 1987 and operated during the 1988-89 heating season. Wood fuel was supplied from a local contractor Mr. Johnny Acorn. Operational experience on this installation has been good with the equipment supplying a significant quantity of the space heat and domestic hot water requirements of the building. The Corporation supplied project management and engineering advice to the Department of Public Works on this project.

FIGURE 3

UNIVERSITY 4 MW WOOD BOILER PLANT

FIGURE 4

800 KW WOOD BOILER PLANT AT WESTILE HIGH SCHOOL

FIGURE 5

450 KW WOOD BOILER PLANT AT THE WESTERN HOSPITAL

4.5.3 WEDGEWOOD MANOR

When the Wedgewood Manor Senior Citizens Complex was built in 1985, a Northfab wood chip combustion unit was installed. This has operated for three heating seasons but with numerous problems and considerable downtime. The original unit was designed for a dry sawdust mix and was not operating well with wood chip fuel. In April, 1988 it was decided jointly by the Department of Health and Social Services, and the Housing Corporation in cooperation with the Energy Corporation to install a replacement wood fired boiler at the Manor and convert the existing Northfab boiler to a standby oil fired unit. The budget cost for the project was $240,000. The equipment was to be constructed locally by Linkletter Welding of Bedeque using a smaller version of the boiler plants designed for the West Prince Project. Wood fuel will be sourced through the same contractor supplying these units.

4.5.4 PAPERS AND PRESENTATIONS

During the year presentations were made to the National Biomass Advisory Committee in Ottawa in January and also to a Wood Boiler Seminar in Truro, N.S. A party of Nova Scotia and New Brunswick Engineers and Contractors toured the wood boiler installations in P.E.I. during January. A presentation was also made to a Woodlands Meeting of the Canadian Pulp and Paper Institute in Quebec City. R.J. Brandon was a Committee Member of a Federal Task Force engaged in a year long review of Canadian Energy Policy. The final report of this Task Force entitled, "Energy and Canadians, into the 21st Century" was published in July, 1988.

4.5.5 WOOD FUEL SUPPLY

The Corporation acts as a wood fuel broker to a variety of provincially owned institutions and the University of P.E.I. Contracts are currently held with Bulk Carriers Ltd., Larsens Sawmill, La Cooperative Forestiere Ltee and material is bought occasionally from other suppliers such as Chips & Cords and Georgetown Timber.

A three year extension was signed with the major supplier, Bulk Carriers, at the same volume of 13,700 tonnes per year and at an annual price increase of the provincial inflation rate less 1%. It is hoped that a larger cogeneration project in the future would enable the market for wood fuel to be considerably expanded. During this year the volume of wood fuel used at the major sites in the Province is shown in Table 2.

TABLE 2
MAJOR SITES USING WOOD CHIP FUEL

Location	Wood boiler size (KW)	Annual Wood Fuel Use (tonnes)	Oil (liters) Displacement	Years of Operation
West				
Wedgewood Manor	400	169	37,180	4
Centre d'Éducation Evangeline	400	N/A		
M.E. Callaghan	450	175	38,500	1
Hernewood	450	116	25,520	1
Westisle	800	238	52,360	1
O'Leary Elementary School & Hospital	450	256	56,370	1
Three Oaks High School	800	569	125,180	1
Western Hospital	450	511	112,420	1
		2,034	447,530	
Central				
Sleepy Hollow Correctional Centre	400	191	42,020	4
Beach Grove Home	700	211	46,420	3
UPEI/DH	3,800	10,587	2,329,360	2
Prince Edward Home District Heating	2,000	4,347	956,340	4
EFW Plant		0	-	6
		15,336	3,374,140	
East				
Souris Hospital	450	548	120,560	1
Morell High School	300	300	66,000	2
Montague Sr./Jr. High School	700	630	138,600	2
Kings County Memorial Hospital	900	1,858	408,760	7
Souris Senior High School	500	475	104,500	3
		3,811	838,420	
Provincial Total		21,181	4,660,090	

4.6 SPECIAL PROJECTS

The Corporation spent $590,324 on projects relating to Forestry Operations on Crown Lands. There were 199 people employed in thinning and clearing activities. Of the budget, $449,500 was spent in wages. The project was managed by the Department of Energy and Forestry on behalf of the Corporation and funds were accounted for under the Provincial Financial Information System.

5. PROJECTS UNDER DEVELOPMENT

5.1 CHARLOTTETOWN DISTRICT HEATING SYSTEM

In June a party of twelve representatives of municipalities & the power utility and legislators visited Sweden to view power plants and district heating installations. The study trip was sponsored by the Swedish Government Agency, SWEBEX, and the party visited Linkoping, Borlange and Sandviken. At all three sites district heat was supplied to municipal areas using wood fuel or municipal waste.

On August 25, 1988, an agreement was signed between Prince Edward Island and New Brunswick with the cooperation of Quebec, to provide up to 50 MW of capacity during the term of the Agreement which expires on April 31, 1994. Energy is also specified under the Agreement up to 620 Gigawatt hours per year. The intention of the Agreement is to provide time to put in place the next major generating unit required by the Province.

Maritime Electric and the Corporation jointly sponsored a study examining the feasibility of a 15 MW electric power plant combined with a District Heating system for Charlottetown. Signing of the electricity Agreement has resulted in some reduction in effort on the part of the Corporation and Maritime Electric since capacity is now available until 1994. However, discussions continue with the Province and Maritime Electric to determine whether or not a large scale on-Island project would be competitive with the most likely off Island alternative which is the coal fired unit at Belledune in New Brunswick.

6. FINANCIAL STATEMENT

The financial statement prepared by our duly appointed auditors follows.

AUDITORS' REPORT

To the Directors of
Prince Edward Island Energy Corporation

We have examined the balance sheet of Prince Edward Island Energy Corporation as at March 31, 1989 and the statements of income and surplus - operating and capital projects and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the corporation as at March 31, 1989 and the results of its operations for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Beaton Fitzpatrick

Beaton, Fitzpatrick

May 29, 1989

PRINCE EDWARD ISLAND ENERGY CORPORATION
BALANCE SHEET

ASSETS

	March 1989	March 1988
Current Assets		
Cash	$ 10	$ 10
Term deposits	4,110	3,758
Accounts receivable	407,127	1,161,752
Holdback receivable	293,599	220,902
Inventories (note 1)	138,883	
Projects under development	6,491,559	4,960,584
	7,335,288	6,347,006
PROPERTY, PLANT AND EQUIPMENT (note 3)		
Fixed assets	12,341,948	12,022,730
Accumulated depreciation	303,732	160,256
	12,038,216	11,862,474
	$19,373,504	$18,209,480

LIABILITIES AND SURPLUS

CURRENT LIABILITIES		
Bank indebtedness (note 4)	$ 2,683,183	$ 3,119,420
Promissory note - Province of Prince Edward Island	2,850,000	1,000,000
Accounts payable and accrued liabilities	1,119,728	1,254,529
Deferred revenue - debt retirement grant	49,903	49,903
Deferred revenue - projects under development	2,899,212	2,348,674
Deferred revenue - other	5,720	
Principal due within one year on long-term debt	101,226	83,213
	9,708,972	7,855,739
LONG-TERM DEBT (note 5)	6,673,614	6,613,040
SURPLUS		
Surplus - operating	309,249	323,381
Deficit - capital projects	2,874,535	2,035,305
Capital - (note 6)	5,556,204	5,452,625
	2,990,918	3,740,701
	$19,373,504	$18,209,480

APPROVED BY THE BOARD

Director

Director

PRINCE EDWARD ISLAND ENERGY CORPORATION
STATEMENT OF INCOME AND SURPLUS — OPERATING

	Year ended March 31 1989	1988
Revenues		
Grants - Province of Prince Edward Island	$441,180	$407,863
Sale of wood	489,379	394,958
	930,559	802,821
Expenses		
Projects	65,165	58,573
Wood and wood administration	503,511	408,184
Administration		
Audit	4,750	4,500
Consulting	124,746	106,232
Directors' honorarium	13,072	16,160
Materials and supplies	1,952	1,213
Miscellaneous	11,277	10,110
Office equipment	855	11,238
Office supplies	2,028	1,381
Telephone	8,210	8,165
Travel	17,147	9,667
Wages and levies	191,978	164,220
	944,691	799,643
NET INCOME (LOSS)	(14,132)	3,178
Surplus at beginning of year	323,381	320,203
SURPLUS AT END OF YEAR	$309,249	$323,381

PRINCE EDWARD ISLAND ENERGY CORPORATION
STATEMENT OF INCOME AND DEFICIT
— CAPITAL PROJECTS

	Year ended March 31 1989	1988
Revenues		
Sale of steam	$1,133,464	$ 873,635
Tippage fees	800,000	294,000
Energy savings	96,673	
Interest and other	2,345	1,825
Province of P.E.I. - special warrant		661,000
- debt retirement grant	135,700	135,700
- operational grant West Prince	80,000	
	2,248,182	1,966,160
Expenses		
Bad debts	699	699
Depreciation	143,476	97,179
Fuel	416,573	145,558
Insurance	3,996	7,700
Interest	1,315,930	984,211
Major maintenance	231,155	
Management	78,528	85,990
Maintenance	44,700	28,855
Operations	889,891	952,613
Property taxes	94,756	83,250
	3,219,704	2,386,055
	971,522	419,895
Other - amortization of capital grant	51,602	35,014
- reallocated to uncompleted projects	80,690	55,930
	132,292	90,944
NET LOSS	839,230	328,951
Deficit at beginning of year	2,035,305	1,706,354
DEFICIT AT END OF YEAR	$2,874,535	$2,035,305

PRINCE EDWARD ISLAND ENERGY CORPORATION
STATEMENT OF CHANGES
IN FINANCIAL POSITION

	Year ended March 31 1989	1988
CASH PROVIDED BY (USED FOR):		
OPERATIONS		
Net income (loss) - operating	$ (14,132)	$ 3,178
- capital projects	(839,230)	(328,951)
Items which do not involve cash		
Depreciation	143,476	97,179
Amortization of capital grant	(51,602)	(35,014)
Change in non-cash operating working capital	95,431	221,006
	(666,057)	(42,602)
FINANCING		
Change in non-cash financing working capital	318,533	(590,351)
Issuance of promissory note	1,850,000	1,000,000
Issuance of long-term debt	161,800	72,400
Reduction of long-term debt	(83,213)	(51,147)
Increase in capital grants	155,181	
Increase in deferred revenue - projects under development	705,719	2,348,674
Capitalization of deferred revenue - projects under development	(155,181)	
	2,952,839	2,779,576
INVESTMENTS		
Reduction of mortgage receivable		9,000
Additions to projects under development	(1,847,940)	(4,693,331)
Capitalization of projects under development	316,965	
Additions to property, plant and equipment	(319,218)	(11,936)
	(1,850,193)	(4,696,267)
INCREASE (DECREASE) IN CASH POSITION	436,589	(1,959,293)
Cash position at beginning of year	(3,115,652)	(1,156,359)
CASH POSITION AT END OF YEAR	$(2,679,063)	$(3,115,652)
Represented by		
Cash	$ 10	$ 10
Term deposits	4,110	3,758
Bank indebtedness	(2,683,183)	(3,119,420)
	$(2,679,063)	$(3,115,652)

PRINCE EDWARD ISLAND ENERGY CORPORATION
NOTES TO FINANCIAL STATEMENTS YEAR ENDED MARCH 31, 1989

GENERAL

The corporation is a Crown corporation established by the Energy Corporation Act and its principal activities are to develop and promote energy systems.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Inventories

Inventories of maintenance supplies and construction materials are valued at cost.

Projects under development

The net surplus or deficit from incidental revenue earned during the project construction phase is capitalized as part of the cost of the project.

Property, plant and equipment

Minor fixed assets are retired out of operating grants and revenues and expensed in the statement of income and surplus - operating, in the period of acquisition.

Major fixed assets remaining the property of the Prince Edward Island Energy Corporation are transferred to the fixed asset accounts from projects under development when such projects are complete.

Depreciation has been provided on fixed assets in accordance with principal payments on long-term debt.

It is the corporation's policy to expense replacement assets for the Energy from Waste Plant in the year of acquisition.

Interest capitalization

The corporation has adopted the policy of capitalizing interest incurred to finance the construction of major projects.

1. INVENTORIES

	1989	1988
Maintenance supplies	$ 8,985	$ Nil
Construction materials	129,898	
	$138,883	$ Nil

2. MORTGAGE RECEIVABLE

	1989	1988
13%, second mortgage, interest due on July 31, 1986 and 1987 and 1/3 of the principal plus interest due on July 1, 1988 and the next two years	$ Nil	$17,000
The mortgage is secured by a wood fired boiler		
Less allowance for doubtfuls	Nil	17,000
	$ Nil	$ Nil

3. PROPERTY, PLANT AND EQUIPMENT

	1989			1988
	Cost	Accumulated depreciation	Net	Net
Waste burning plant	$10,386,407	$ 5,146	$10,381,261	$10,079,441
District heating	1,955,541	298,586	1,656,955	1,783,033
	$12,341,948	$303,732	$12,038,216	$11,862,474

4. BANK INDEBTEDNESS

Bank indebtedness is secured by a guarantee from the Province of Prince Edward Island to a maximum of $4,600,000.

During the year ended March 31, 1989, interest costs incurred on the operating loan totalled $293,064. This interest has been accounted for as follows:

Capitalized to uncompleted projects through reallocation of revenues and expenses	
- West Prince	$ 13,366
- U.P.E.I.	13,912
Expensed on Energy from Waste operations	265,786
	$293,064

5. LONG-TERM DEBT

	1989	1988
12% debenture, payable interest only to 1993 with equal principal and interest installments commencing in 1993 to amortize the balance over a ten year period	$5,500,000	$5,500,000
10 1/4% debenture, payable in principal and interest installments commencing in 1987 to amortize the balance over a ten year period	717,463	773,853
9 3/4% debenture, payable in principal and interest installments commencing in 1988 to amortize the balance over a ten year period	395,577	422,400
11 1/8% debenture, payable in principal and interest installments commencing in 1989 to amortize the balance over a ten year period	161,800	
	6,774,840	6,696,253
Principal included in current liabilities	101,226	83,213
	$6,673,614	$6,613,040

Principal due within each of the next five years is approximately as follows:

1990	$101,226	1993	135,428
1991	111,538	1994	149,229
1992	122,903		

6. CAPITAL SURPLUS

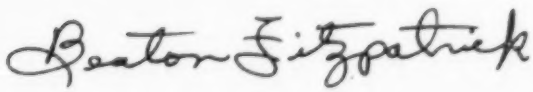
The corporation has adopted the policy of capitalizing those funds received in financial support of the capital cost of fixed assets. The surplus is being amortized to income on the same method that depreciation is provided on the related assets.

	1989	1988
Balance at beginning of year	$5,452,625	$5,487,639
Funds capitalized	155,181	
	5,607,806	5,487,639
Amortization	51,602	35,014
BALANCE AT END OF YEAR	$5,556,204	$5,452,625

AUDITORS' REPORT ON OTHER FINANCIAL INFORMATION

Prince Edward Island Energy Corporation
Charlottetown, Prince Edward Island

The audited financial statements of the corporation and our report thereon are presented in the preceding section of this report. The following information is presented for purposes of additional analysis and is not required for a fair presentation of the financial position or results of operations of the corporation. Such information has been subjected to the audit procedures applied in our examination of the financial statements and in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.



Beaton Fitzpatrick

May 29, 1989

PRINCE EDWARD ISLAND ENERGY CORPORATION
SCHEDULE OF PROJECT COSTS

	Year ended March 31	
	1989	1988
Renewable Energy Initiatives	$63,260	$58,573
Other	1,905	
	$65,165	$58,573

PRINCE EDWARD ISLAND ENERGY CORPORATION
SCHEDULE OF INCOME AND EXPENSES — CAPITAL PROJECTS

	Year ended March 31 1989				
	U.P.E.I.	Energy from Waste	District Heating	West Prince	Total
Revenues					
Sale of steam	$338,350	$ 625,440	$130,256	$ 39,418	$1,133,464
Tippage fees		800,000			800,000
Energy savings	96,673				96,673
Interest & other		2,345			2,345
Province of P.E.I.					
- Debt retirement grant			135,700		135,700
- Operational grant West Prince				80,000	80,000
	435,023	1,427,785	265,956	119,418	2,248,182
Expenses					
Bad debts			699		699
Depreciation		5,146	138,330		143,476
Fuel	285,942		78,347	52,284	416,573
Insurance			3,996		3,996
Interest	228,528	931,071	115,385	40,946	1,315,930
Major maintenance		231,155			231,155
Management		78,528			78,528
Maintenance	14,872		17,269	12,559	44,700
Operations		889,891			889,891
Property taxes		94,756			94,756
	529,342	2,230,547	354,026	105,789	3,219,704
Income (loss)	(94,319)	(802,762)	(88,070)	13,629	(971,522)
Other					
Amortization of capital grant		2,462	49,140		51,602
Reallocated to uncompleted projects	94,319			(13,629)	80,690
Net loss	$ Nil	$ 800,300	$ 38,930	$ Nil	$ 839,230